

## REGULATION

### OVERVIEW

Our operations are primarily located in the PRC. We also maintain operations in the United Kingdom, Singapore and a representative office in India. The following sets forth a summary of the most significant PRC laws and regulations that affect our business and the industry in which we operate. Except as otherwise disclosed in this document, our Directors are not aware of any material non-compliance by the Group with the laws and regulations of the PRC and other jurisdictions in which we operate or sell our products. Except as otherwise disclosed in this document, we have been advised by Jingtian & Gongcheng, our PRC legal advisers, that we have complied in all material respects with all material PRC laws and regulations.

### FOREIGN INVESTMENT

On October 31, 2007, NDRC and MOFCOM jointly promulgated the Catalogue of Industries for Guiding Foreign Investment (as amended in 2007) (《外商投資產業指導目錄 (2007年修訂)》), or the Catalogue, which came into effect on December 1, 2007. The Catalogue listed those industries and economic activities in which foreign investment in the PRC is encouraged, restricted or prohibited. Pursuant to the Catalogue, the manufacture of desulphurization and denitration equipment for thermal power plants, and the development of energy conservation technology, and development and application of technology for recycling and comprehensive utilization of resources and reutilization of emission in the production of enterprises fall into the encouraged category.

### ENERGY CONSERVATION AND EMISSION REDUCTION

With the rapid growth of the economy in the PRC and in light of the rising consumption of energy and the importance of environmental protection, the PRC government, which increasingly encourages the development of energy conservation and emission reduction, has adopted regulations and policies relevant to energy conservation and comprehensive utilization of resources, which significantly benefits the boiler and its component manufacturing industry and the waste heat power generation industry.

#### Law of the PRC on Promoting Clean Production

On June 29, 2002, the Standing Committee of the National People's Congress promulgated the Law of the PRC on Promoting Clean Production (《中華人民共和國清潔生產促進法》), or the Law on Promoting Clean Production, which came into effect on January 1, 2003. In accordance with the Law on Promoting Clean Production, the development of clean production technology is encouraged and will be popularized. In the process of technical advancement, enterprises shall adopt various measures of clean production, including the comprehensive utilization and recycling of waste heat. Any enterprise that produces products out of the waste may be entitled to value added tax reduction or exemption under relevant regulations.

#### Law of the PRC on Energy Conservation

As amended in 2007, the Law of the PRC on Energy Conservation (《中華人民共和國節約能源法》), or the Law on Energy Conservation, took effect on April 1, 2008. It stipulates that the PRC government shall carry out industrial policies in favor of energy conservation and environmental protection, and the research, development and promotion of science and technology of energy conservation shall be supported to improve the technical innovation and advancement. In particular, industrial enterprises are encouraged to use highly-efficient and energy-conserving boilers and to employ the technology of waste heat utilization. Incentive measures may be adopted to promote energy conservation activities.

#### Law of the PRC on Promoting Circular Economy

The Law of the PRC on Promoting Circular Economy (《中華人民共和國循環經濟促進法》), or the Law on Promoting Circular Economy, issued on August 29, 2008 and effective from January 1, 2009, defines the term of circular economy, which means the reduction, reutilization and recycling of the waste. As per the Law on Promoting Circular Economy, enterprises shall adopt advanced or applicable recycling technology, process and

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equipment and shall make comprehensive utilization of the waste heat and pressure generated in the production. A variety of incentive measures will be taken in favor of the development of circular economy.

### **The Eleventh Five-Year Planning Outline of National Economic and Social Development of the PRC**

On March 14, 2006, the 4<sup>th</sup> Session of the 10<sup>th</sup> National People's Congress approved the Eleventh Five-Year Planning Outline of National Economic and Social Development of the PRC (《中華人民共和國國民經濟和社會發展第十一個五年規劃綱要》), or the Planning Outline, which is the key programmatic policy for the national development for 2006–2010. The Planning Outline sets the remarkable improvement of efficiency of resource utilization as one of the primary goals of the economic and social development, aiming at reducing the energy consumption per unit of GDP by approximately 20% during the Eleventh Five-Year period. It also stipulates that the energy conservation technology shall be promoted and the utilization of highly-efficient energy conservation products shall be encouraged. Particularly, according to the Planning Outline, which highlights the adoption of energy conservation and environmental protection as the fundamental national policy, the revamping or upgrading of inefficient coal-fueled industrial boilers (kilns) and the promotion of waste heat and pressure utilization are classified as two of the ten key projects for energy conservation.

### **Opinions on Implementing the Ten Key Energy Conservation Projects in the Eleventh Five-Year Period**

Eight national governmental authorities, including NDRC, jointly promulgated on July 25, 2006 the Opinions on Implementing the Ten Key Energy Conservation Projects in the Eleventh Five-Year Period (《“十一五”十大重點節能工程實施意見》), or the Implementing Opinions. With respect to the ten key energy conservation projects as defined in the Planning Outline, including the revamping and upgrading of inefficient coal-fueled industrial boilers (kilns) and the utilization of waste heat and pressure, the Implementing Opinions analyze the existing backgrounds and the problems in the relevant industries, set forth the details in carrying out those key projects and respective supporting measures, clarify all the parties involved, and provide the guaranteed measures, including establishing strict energy conservation system, promoting the structural adjustment and technical advancement, strengthening project management and other measures.

### **Guidelines on Comprehensive Utilization of Resources in the Eleventh Five-Year Period**

On December 24, 2006, NDRC enacted the Guidelines on Comprehensive Utilization of Resources in the Eleventh Five-Year Period (《“十一五”資源綜合利用指導意見》), or the Guidelines. Pursuant to the Guidelines, recycling and reclamation of waste gas, heat and pressure, including the waste heat power generation of the industrial kilns, is identified as one of the major areas for comprehensive utilization of resources.

### **Comprehensive Working Plan on Energy Conservation and Emission Reduction**

On June 3, 2007, the State Council promulgated the Comprehensive Working Plan on Energy Conservation and Emission Reduction (《節能減排綜合性工作方案》), or the Working Plan, in accordance with which the energy consumption per RMB 10,000 GDP is to be reduced from 1.22 tons of the standard coal in 2005 by approximately 20% and to less than 1 ton by the year of 2010. In order to achieve the goal, certain tasks shall be accomplished in the Eleventh Five-Year period, including speeding up to eliminate backward productivities, striving for the ten key energy conservation projects, intensifying the administration over the emission reduction by major enterprises, and strengthening the dispatching of power produced by environmental protective generators and comprehensive utilization of resources. Policies will be perfected to form an effective incentive and restrictive mechanism regarding energy conservation and emission reduction.

## MANUFACTURING QUALIFICATIONS

Under the PRC laws, the manufacturing of special equipment such as boilers, pressure vessels and the relevant safety accessories and safety protection fittings is subject to administrative licenses. Pursuant to the Regulation on Safety Supervision over Special Equipments (《特種設備安全監察條例》) promulgated on March 11, 2003 and as amended on January 24, 2009 by the State Council and the Catalogue of the Special Equipments

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(《特種設備目錄》), promulgated on January 19, 2004 by GAQSIQ, which is the state authority responsible for the supervision and administration of special equipments industries in the PRC, any enterprise designing pressure vessels shall be licensed and the design documents of boilers may not be used in manufacturing unless being appraised by approved inspection and testing institutions; and enterprises manufacturing special equipments such as boilers, pressure vessels and the relevant safety accessories and safety protection fittings shall apply for a Manufacture License for Special Equipment to conduct their manufacturing operation. Otherwise, these enterprises will be prohibited from conducting their operations, the special equipments illegally manufactured will be confiscated, the illegal income derived therefrom will be forfeited and the directly responsible persons in charge and other responsible persons of these enterprises may be subject to criminal liabilities.

## POWER

The Electric Power Law of the PRC (《中華人民共和國電力法》), which came into effect on April 1, 1996, the Regulation on the Administration of Electric Power Dispatch to Networks and Grids (《電網調度管理條例》), which came into effect on November 1, 1993 and the Regulation on Electric Power Supervision and Administration (《電力監管條例》), which came into effect on May 1, 2005, set out the regulatory framework of the power industry of the PRC.

### The Electric Power Law of the PRC

The Electric Power Law of the PRC, or the Electric Law, came into effect on April 1, 1996, which can be regarded as the fundamental law for the electric power industry. The Electric Law, which generally applies to the construction, generation, supply and consumption of electric power in the PRC, provides that environmental protective technology shall be adopted to decrease the discharge of noxious waste, and power generation with renewable and clean energy is encouraged and supported.

### Provisions on Administration of Electric Power Business Permits

On October 13, 2005, the State Electricity Regulatory Commission ("SERC") promulgated the Provisions on the Administration of Electric Power Business Permits (《電力業務許可證管理規定》), or the Administration Provisions, which came into effect on December 1, 2005. Pursuant to the Administration Provisions, public power plants, self-provided power plants connected to grids and other plants as prescribed by SERC shall apply for and procure power generation permits. The enterprises failing to obtain power generation permits and illegally conducting power business shall be ordered to obtain the permits and any illegal income shall be forfeited, with fines up to five times the illegal income being imposed, and may be subject to criminal liabilities.

### Regulation on Power Dispatch

The Regulation on the Administration of the Electric Power Dispatch to Networks and Grids, which came into effect on November 1, 1993, stipulates that the mechanism of centralized dispatching and level-by-level administration shall be exercised in the operation of power networks and grids. Any grid-connected power plants or grids must be subject to the uniform dispatch by dispatching entities, and prior to the grid connection, grid connection and coordination agreements shall be entered into by and between power plants to be grid-connected and the grids as well as by and between grids.

On August 2, 2007, the Measures on Dispatch of Energy Saving Power Generation (For Trial Implementation) (《節能發電調度辦法(試行)》), or the Trial Dispatch Measures, was promulgated to reduce energy consumption and pollutant emission. According to the Trial Dispatch Measures, the dispatch priority of power generators is determined in the following sequence: (a) non-adjustable power generation units utilizing renewable energy; (b) adjustable power generation units utilizing renewable energy and garbage generator units which meet the requirements of environmental protection; (c) nuclear power generation units; (d) coal-fired heat-load based CHP units and multiple resource power generation units; (e) gas-fired power generation units; (f) coal-fired power generation units, including cogeneration units without heat-load; and (g) oil-fired power generation units.

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### ENVIRONMENTAL PROTECTION

We are subject to a variety of PRC environmental protection laws and regulations. The major environmental regulations applicable to us include the PRC Environmental Protection Law (《中華人民共和國環境保護法》), the PRC Water Pollution Prevention Law (《中華人民共和國水污染防治法》), the PRC Atmospheric Pollution Prevention Law (《中華人民共和國大氣污染防治法》), the PRC Environmental Impact Assessment Law (《中華人民共和國環境影響評價法》), the PRC Environmental Noise Pollution Prevention Regulations (《中華人民共和國環境噪聲污染防治法》) and the regulations governing environmental protection in construction projects. In addition, general environmental regulations relating to the treatment of industrial waste are also applicable to us.

In accordance with the abovementioned laws and regulations, manufacturing enterprise shall adopt measures to control environmental pollution and harm resulting from dust, waste gas, waste water, solid waste materials, noise and vibration at the manufacturing site. The Ministry of Environmental Protection of the PRC (formerly known as State Environmental Protection Administration) and its local counterparty are responsible for the supervision and administration of environmental protection during the course of manufacturing. A breach of any of such regulations may result in the imposition of fines and penalties and even curtailment or suspension of business operations of enterprises.

### TAXATION

#### Regulations on Enterprise Income Tax

The PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles and PRC tax laws and regulations. Prior to January 1, 2008, foreign invested enterprises established in the PRC were generally subject to an income tax rate of 30% and a local income tax rate of 3%, while PRC domestic companies were generally subject to an enterprise income tax rate of 33%. And the PRC government has provided various incentives to foreign-invested enterprises to encourage foreign investments. Such incentive include reduced tax rates and other measures. In addition, in accordance with the Notice on Tax Preferential Policies for Development of the West Region promulgated in 2001, domestic and foreign-invested enterprises in encouraged industries established in the western region are entitled to a preferential enterprise income tax rate of 15% from the year of 2001 to 2010.

On March 16, 2007 and December 6, 2007, respectively, the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), or the New EIT Law, and the Implementation Regulation for Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), or the Implementation Regulation, were promulgated by the National People's Congress and the State Council, both of which came into effect on January 1, 2008. Pursuant to the New EIT Law and the Implementation Regulation, the enterprise income tax rate for both domestic and foreign invested enterprises is unified at 25% effective from January 1, 2008. However, according to the New EIT Law and its relevant implementation rules, there is a transition period for previous preferential tax policies : enterprises which were established prior to March 16, 2007 and were eligible for preferential tax rates according to then effective tax laws and regulations will continue to enjoy low tax rate and will gradually transit to the new tax rate of 25% within 5 years from the effective date of the New EIT Law, and enterprises which were established prior to March 16, 2007 and were eligible for preferential tax reduction or exemption within a fixed time will continue to enjoy such treatment until such fixed term expires except that the relevant exemption or reduction shall start from January 1, 2008 if the first profitable year for the relevant enterprise is later than January 1, 2008. Besides, the tax preferential treatments for the development of the western region will continue to be effective.

Under the New EIT Law, the enterprise income tax shall be generally levied at the rate of 25%. A non-resident enterprise without agency or establishment within the PRC, or with its income irrelevant to any of its agency or establishment in the PRC, shall be subject to an enterprise income tax rate of 20% for the income generated in China, which, according to the Implementation Regulation, is reduced to 10%. Pursuant to the New EIT Law, preferential tax treatments will be granted to specially supported and encouraged industries and projects, the details of which are provided in the Implementation Regulations.



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On January 9, 2009, the SAT promulgated the Interim Measures for the Administration of Withholding at Source of Enterprise Income Tax for Non-resident Enterprises (《非居民企業所得稅源泉扣繳管理暫行辦法》), or the Interim Measures, which took effect retroactively on January 1, 2009. In accordance with the Interim Measures, if a non-resident enterprise receives the income originating from China, or the taxable income, including equity investment income such as dividend and bonus, interest, rental and royalty income, income from property transfer and other incomes, the EIT payable on the taxable income shall be withheld at the source by the enterprise or the individual who is directly obligated to make relevant payment to the non-resident enterprise under relevant laws or contracts.

On April 30, 2009, the MOF and the SAT jointly promulgated the Circular on Issues concerning the Enterprise Income Tax Settlement on the Restructuring of Enterprises (《關於企業重組業務企業所得稅處理若干問題的通知》), or the Restructuring Circular, which took effect retroactively on January 1, 2008. The Restructuring Circular applies to the handling of income tax issues of any enterprise in its restructuring, that is, any transaction out of the ordinary business operations resulting in material changes of the legal or economic structure of the enterprises, including without limitation to the change of the legal form of the enterprise, debt reorganization, equity and asset acquisition, merger and division.

Pursuant to the Administration Rules of Tax on Business Transactions Between Affiliated Enterprises (《關聯企業間業務往來稅務管理規程》), or the Administration Rules, which was promulgated by the SAT on April 23, 1998, as amended on October 22, 2004, foreign-owned or foreign-invested enterprises in the PRC which has transactions with their affiliated enterprise shall submit to the competent tax authorities the Annual Declaration on Business Transactions with Affiliated Enterprises for Foreign-owned and Foreign-invested Enterprises (《外商投資企業和外國企業與其關聯企業往來情況年度申報表》), or Annual Declarations. The tax authorities, based on the submissions of Annual Declarations and other relevant documents, shall make appropriate adjustments on such enterprises' taxable profits and order the enterprises to pay an adjusted tax.

However, the SAT promulgated the Implementation Measures for Special Taxation Adjustments (For Trial Implementation) (《特別納稅調整實施辦法(試行)》), or the Implementation Measures, on January 8, 2009, which came into effect retroactively on January 1, 2008 and replaces the Administration Rules. The Implementation Measures shall apply to the administration by competent tax authorities over special tax adjustments including the transfer pricing. Any resident enterprise subject to the audit taxation (查賬徵收) and any non-resident enterprise with establishments or offices in the PRC that file and pay the enterprise income tax shall, when filing its annual enterprise income tax return with the competent tax authorities, attach thereto a Statement Form of Enterprises on Annual Affiliated Transactions (《企業年度關聯業務往來報告表》). Meanwhile, it is required for an enterprise to prepare, retain and submit at the request of tax authorities the contemporaneous documents based on its taxable years, unless otherwise provided in the Implementation Measures. Tax authorities shall have the right to identify enterprises to be investigated and make investigations and adjustments for the transfer pricing. For transactions between domestic affiliated enterprises being actually subject to identical tax burdens, as long as such transactions do not directly or indirectly result in any decline in the national total tax revenue, no transfer pricing investigation and adjustment shall be made in principle. If the tax authorities deliver the notice of investigation and adjustment for special taxation to an enterprise, the enterprise shall pay its tax and interest thereon within the specified period.

On July 6, 2009, the SAT promulgated the Circular on Strengthening the Supervision and Investigation over Cross-border Affiliated Transactions (《關於強化跨境關聯交易監控和調查的通知》), pursuant to which, if an enterprise incorporated by a multinational enterprise in the PRC, which bears limited functions and risks such as mono-production, distribution or contractual research and development, incurs any loss, no matter whether such enterprise meets the standards to prepare the contemporaneous documents, such enterprise shall prepare and submit the contemporaneous documents and other relevant materials.

According to the New EIT Law and the Implementation Regulation, for enterprises engaged in projects of environmental protection and energy and water conservation, including the project of technical advancement of energy conservation and emission reduction, when complying with relevant requirements as prescribed in the Catalogue of Enterprise Income Tax Preference for Energy and Water Conservation Equipment (《節能節水專用設備企業所得稅優惠目錄》) and the Catalogue of Enterprise Income Tax Preference for

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Environmental Protection Specialized Equipment (《環境保護專用設備企業所得稅優惠目錄》), their income obtained therefrom will be exempt from enterprise income tax for the first three years starting from the tax year in which they obtain the first sum of business income from the projects, and then subject to a half deduction rate for the following three years.

According to the New EIT Law and the Implementation Regulation, for high-tech enterprises that the state needs to support with priority, the enterprise income tax shall be levied at a reduced rate of 15%. Such high-tech enterprises shall be engaged in the industries as listed in the High-tech Areas Supported by the State with Priority (《國家重點支持的高新技術領域》) such as power generation with low-temperature waste heat and waste gas as well as the recycling of waste pressure, heat and energy and shall be determined in accordance with the Administrative Measures for Determination of High-tech Enterprises (《高新技術企業認定管理辦法》) promulgated by the Ministry of Science and Technology, MOF and SAT on April 14, 2008.

Pursuant to the Implementation Regulation, any income derived from manufacturing products that are not restricted or prohibited and in compliance with the national and industrial standards, by using resources listed in the Catalogue of Enterprise Income Tax Preference for Comprehensive Utilization of Resources (《資源綜合利用企業所得稅優惠目錄》), will be deducted by 10% when calculating the amount of the taxable income, such as the income out of power generation with waste heat and pressure produced in industrial manufacturing.

### Regulations on Value-added Tax

According to the amended Interim Regulation of Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) and the amended Detailed Rules for the Implementation of the Interim Regulation of Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》), both of which became effective since January 1, 2009, all entities and individuals engaged in the sale of goods, provision of processing, repair and replacement services, and the import of goods within the territory of the PRC are taxpayers of value-added tax. Ordinary tax payers shall pay the value-added tax at the rate of 13% or 17%, while small-scale tax payers shall pay the value-added tax at the rate of 3%.

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Pursuant to the Regulation of Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》), which was promulgated on January 19, 1996, as amended on January 14, 1997 and on August 1, 2008 by the State Council, Renminbi are freely convertible for current account items, such as trade-related receipts and payments, interest and dividends. However, conversion of Renminbi and remittance of the foreign currency outside the PRC for capital account items, such as direct equity investments, loans and repatriation of investment, are subject to prior approval from SAFE or its local counterpart.

### PRC Regulation on Foreign Exchange Administration Registration for Special Purpose Companies and Round-trip Investments

Pursuant to Notice on Relevant Issues concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and in Round-trip Investment via Special Purpose Offshore Companies (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), issued by SAFE on October 21, 2005 (Notice No. 75), a PRC resident legal person or a PRC resident natural person (the "PRC Resident") shall (a) carry out foreign exchange registration for overseas investment with the local branch of SAFE before he/it establishes or controls a special purpose offshore company (the "SPC"), which, for the purpose of the Notice No. 75, means an overseas enterprise directly established or indirectly controlled by a PRC Resident for the purpose of engaging in overseas equity financing (including convertible bond financing) with the assets or interests in an onshore enterprise in the PRC, and (b) carry out the foreign exchange modification registration for the net asset interest and its change in case of the injection of interests or assets of an onshore enterprise in the SPC or overseas funds raised by such SPC. Notice No. 75 also requires a PRC resident to go through a modification registration or filing procedure when certain major capital events occur, such as increase or decrease of capital, equity transfer or share swap, merger or split, etc. On May 29, 2007, the SAFE promulgated

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the Operational Rules for the Notice No. 75, which specifies the procedures of the registrations or filings as required in Notice No. 75.

### DIVIDEND DISTRIBUTION

According to Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) and the Implementation Rules for Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》), wholly foreign-owned enterprises in the PRC may pay dividends out of their accumulated profits after certain taxes are properly paid in accordance with relevant PRC tax laws and certain funds, including general reserve fund and staff welfare and bonus fund, are properly retained.

Under the previous effective PRC tax law, dividends payable to foreign investors by foreign-invested enterprises were exempt from PRC withholding tax. Pursuant to the New EIT Law and its Implementation Regulation which have become effective since January 1, 2008, dividend income between qualified PRC resident enterprises is exempt from enterprise income tax, while dividends payable by a foreign invested enterprise to non-PRC investors that are "non-PRC resident enterprises" shall be subject to the enterprise income tax at the rate of 10%, to the extent such dividends are derived from sources within the PRC, unless such non-PRC investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement.

However, on February 20, 2009, the SAT promulgated the Notice on Relevant Issues concerning Implementation of Dividend Clauses under Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》), or the 2009 Notice. Pursuant to the 2009 Notice, the transaction or the arrangement, with the major purpose of obtaining any preferential tax treatment, shall not justify the application of preferential treatment stipulated in dividend clauses under tax treaties. If the tax payer improperly enjoys the preferential treatment under tax treaties as a result of the abovementioned transaction or arrangement, the tax authority in charge shall be entitled to make adjustment. As the 2009 Notice is newly issued, it remains unclear how the PRC tax authorities will implement it in practice.

### LABOR AND SOCIAL INSURANCE

We are subject to various labor and safety laws and regulations in the PRC, including the PRC Labor Law (《中華人民共和國勞動法》), the PRC Labor Contract Law (《中華人民共和國勞動合同法》), the Implementation Regulation for the PRC Labor Contract Law (《中華人民共和國勞動合同法實施條例》), the Regulation of Insurance for Labor Injury (《工傷保險條例》), the Unemployment Insurance Law (《失業保險條例》), the Provisional Insurance Measures for Maternity of Employees (《企業職工生育保險試行辦法》), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Regulations for the Housing Provident Fund Contributions (《住房公積金管理條例》). Under these PRC laws and regulations, enterprises are required to provide their employees with welfare schemes including, among other things, pension premium, work-related injury insurance, medical insurance and training in relation to occupational safety.

Compared to the PRC Labor Law promulgated on July 5, 1994, the new PRC Labor Contract Law, or the Labor Contract Law, promulgated on June 29, 2007 provides additional protections to the legitimate rights of employees by requiring execution of employment contracts in written form, lessening the scope of circumstances under which employees may be exposed to indemnity for breach of employment contracts and imposing stricter penalties on employers who fail to pay remuneration or social security premiums for their employees. The Labor Contract Law has provided for, among others, employees' rights concerning overtime working hours, pensions and layoffs, the execution, performance, modification and termination of labor contracts, and the role of trade unions in certain circumstances. In particular, it provides for specific standards and procedures for entering into non-fixed-termed labor contracts. Pursuant to the Labor Contract Law, either the employer or the employee is entitled to terminate the labor contract in circumstances as prescribed in the Labor Contract Law or if certain precondition provided in the Labor Contract Law is fulfilled, and in certain cases, the employer is required to pay economic compensation upon the termination of the labor contract pursuant to the standard provided by the Labor Contract Law. The aforementioned provisions purport to establish a stable and harmonious labor relationship between employers and employees. Based on the provisions in the Labor Contract Law, the

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Implementation Regulation for the PRC Labor Contract Law further sets forth more detailed rules with respect to the execution of labor contracts, the cancellation and termination of labor contracts and labor dispatching.

## **WORK SAFETY**

We are subject to the Production Safety Law of the PRC (《中華人民共和國安全生產法》), or the Production Safety Law, and other relevant laws, administrative regulations, national standards and industrial standards which stipulate requirements to maintain safe production conditions. The Production Safety Law provides that any entity that is not sufficiently facilitated or equipped to ensure safe production may not engage in production and business operation activities, and that entities must provide production safety education and training programs to employees. The design, manufacture, installation, use, checking and maintenance of our safety facilities and equipments are required to conform to applicable national or industrial standards. In addition, it is required that the labor protection facilities and equipments must meet the national or industrial standards and that entities must supervise and educate their employees to use such facilities and equipments according to the prescribed rules.